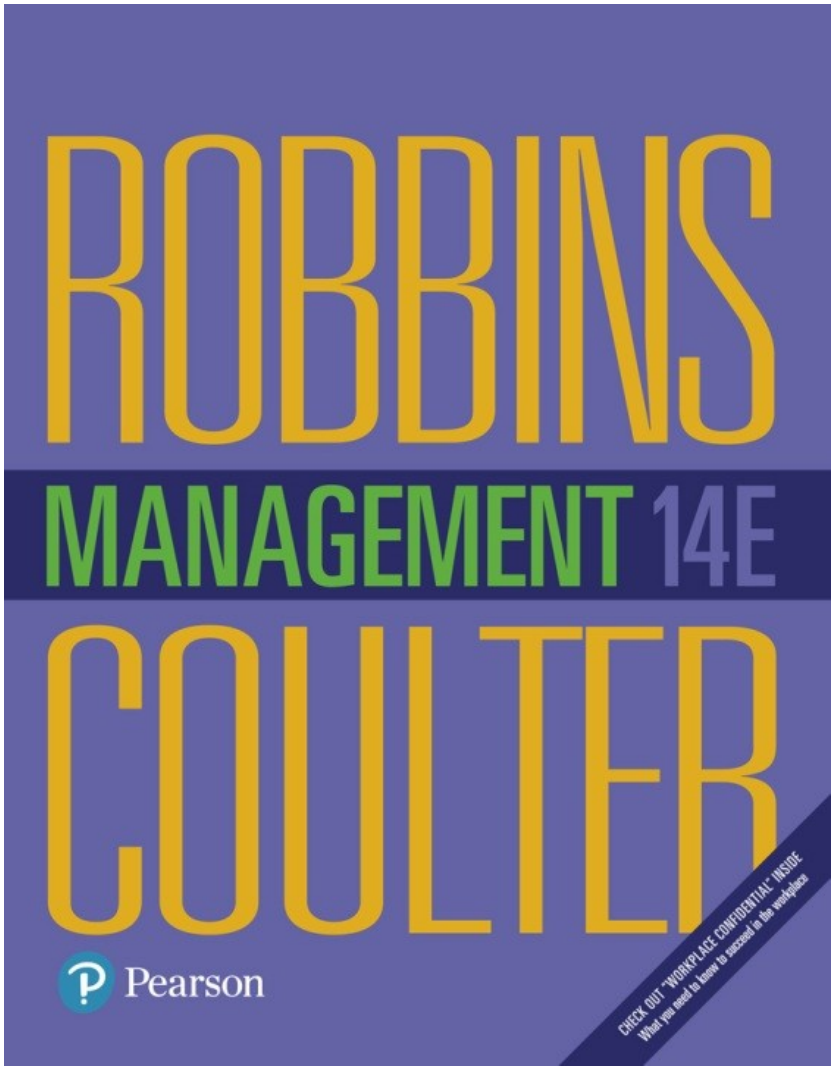
Management

Fourteenth Edition



Chapter 10

Entrepreneurial Ventures

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Learning Objectives

10.1 **Define** entrepreneurship and explain why it's important.

10.2 **Explain** what entrepreneurs do in the planning process for new ventures.

Know how to think creatively about solving a common problem.

Develop your skill for writing an executive summary for effectively communicating novel ideas.

10.3 **Describe** the six legal forms of organizations and the choice of appropriate organizational structure.

10.4 **Describe** how entrepreneurs lead organizations.

10.5 **Explain** how managers control organizations for growth, downturns, and exiting the venture.

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What is Entrepreneurship?

- **Entrepreneurship**: the process of starting new businesses, generally in response to opportunities
- **Entrepreneurial ventures**: organizations that pursue opportunities, are characterized by innovative practices, and have growth and profitability as their main goals

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Small Business

- **Small business**: an organization that is independently owned, operated, and financed; has fewer than 100 employees; doesn’t necessarily engage in any new or innovative practices; and has relatively little impact on its industry

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Entrepreneurship Versus Self-Employment?

- **Self-employment**: individuals who work for profit or fees in their own business, profession, trade, or farm

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Why is Entrepreneurship Important?

- Innovation
- Number of new start-ups
- Job creation
- Global entrepreneurship

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The Entrepreneurial Process

1. Explore the entrepreneurial context
2. Identify opportunities and possible competitive advantages
3. Start the venture
4. Manage the venture

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What Do Entrepreneurs Do?

- No two entrepreneurs are exactly the same. Generally, they:
  - Create something new and different
  - Search for, respond to, and exploit change
  - Research feasibility
  - Launch and manage new ventures

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Social Responsibility and Ethics Issues Facing Entrepreneurs

- A study of small companies showed that while 95% said developing a positive reputation and relationship in communities where they do business is important, 70% admitted that they failed to consider community goals in their business plans.

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Identifying Environmental Opportunities and Competitive Advantage

- Sources of opportunity:
  - The unexpected
  - The incongruous
  - The process need
  - Industry and market structures
  - Demographics
  - Changes in perception
  - New knowledge

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Researching the Venture's Feasibility—Ideas

- When exploring idea sources entrepreneurs should look for:
  - Limitations of what is currently available
  - New and different approaches
  - Advances and breakthroughs
  - Unfilled niches
  - Trends and changes

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Exhibit 10-1: Evaluating Potential Ideas

Personal Considerations	Marketplace Considerations
Do you have the capabilities to do what you've selected?	Who are the potential customers for your idea: who, where, how many?
Are you ready to be an entrepreneur?	What similar or unique product features does your proposed idea have compared to what's currently on the market?
Are you prepared emotionally to deal with the stresses and challenges of being an entrepreneur?	How and where will potential customers purchase your product?
Are you prepared to deal with rejection and failure?	Have you considered pricing issues and whether the price you'll be able to charge will allow your venture to survive and prosper?
Are you ready to work hard?	Have you considered how you will need to promote and advertise your proposed entrepreneurial venture?
Do you have a realistic picture of the venture's potential?	
Have you educated yourself about financing issues?	
Are you willing and prepared to do continual financial and other types of analyses?	

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Feasibility Study

- **Feasibility study**: an analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility

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Exhibit 10-2
Feasibility Study (1 of 4)

A. Introduction, historical background, description of product or service	B. Accounting considerations
1. Brief description of proposed entrepreneurial venture	1. Pro forma balance sheet
2. Brief history of the industry	2. Pro forma balance sheet
3. Information about the economy and important trends	3. Projected cash flow analysis
4. Current status of the product or service	
5. How you intend to produce the product or service	blank
6. Complete list of goods or services to be provided	
7. Strengths and weaknesses of the business	blank
8. Ease of entry into the industry, including competitor analysis	

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Exhibit 10-2
Feasibility Study (2 of 4)

C. Management considerations	D. Marketing considerations
1. Personal expertise—strengths and weaknesses	1. Detailed product description
2. Proposed organizational design	2. Identify target market (who, where, how many)
3. Potential staffing requirements	3. Describe place product will be distributed (location, traffic, size, channels, etc.)
4. Inventory management methods	4. Price determination (competition, price lists, etc.)
5. Production and operations management issues	5. Promotion plans (role of personal selling, advertising, sales promotion, etc.)
6. Equipment needs	

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Exhibit 10-2
Feasibility Study (3 of 4)

E. Financial considerations	F. Legal considerations
1. Start-up costs	1. Proposed business structure (type; conditions, terms, liability, responsibility; insurance needs; buyout and succession issues)
2. Working capital requirements	2. Contracts, licenses, and other legal documents
3. Equity requirements	blank
4. Loans—amounts, type, conditions	
5. Breakeven analysis	blank
6. Collateral	
7. Credit references	blank
8. Equipment and building financing—costs and methods	

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Exhibit 10-2
Feasibility Study (4 of 4)

G. Tax considerations: sales/property/employee; federal, state, and local	**H. Appendix: charts/graphs, diagrams, layouts, résumés, etc.**

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Researching the Venture's Feasibility—Competitors

- Potential questions include:
  - What types of products or services are competitors offering?
  - What are their products' strengths and weaknesses?
  - How do they handle marketing, pricing, and distribution?
  - How do they attempt to do differently from other competitors?

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Researching the Venture's Feasibility—Financing

- **Venture capitalists**: external equity financing provided by professionally managed pools of investor money
- **Angel investors**: a private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture
- **Initial public offering (IPO)**: the first public registration and sale of a company's stock

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Exhibit 10-3
Possible Financing Options

Option
Entrepreneur's personal resources (personal savings, home equity, personal loans, credit cards, etc.)
Financial institutions (banks, savings and loan institutions, government-guaranteed loan, credit unions, etc.)
Venture capitalists—external equity financing provided by professionally man-aged pools of investor money
Angel investors—a private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture
Initial public offering (IPO)—the first public registration and sale of a company's stock
National, state, and local governmental business development programs
Unusual sources (television shows, judged competitions, crowdfunding, etc.)

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Developing a Business Plan

- **Business plan**: a written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited

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Business Plan—Major Areas

- Executive summary
- Analysis of opportunity
- Analysis of the context
- Description of the business
- Financial data and projections
- Supporting documentation

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The Sharing Economy

- **Sharing economy**: business arrangements that are based on people sharing something they own or providing a service for a fee

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Legal Forms of Organization (1 of 3)

- **Sole proprietorship**: a form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts
- **General partnership**: a form of legal organization in which two or more business owners share the management and risk of the business

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Legal Forms of Organization (2 of 3)

- **Limited liability partnership (LLP)**: a form of legal organization consisting of general partner(s) and limited liability partner(s)
- **Corporation**: a legal business entity that is separate from its owners and managers
- **Closely held corporation**: a corporation owned by a limited number of people who do not trade the stock publicly

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Legal Forms of Organization (3 of 3)

- **S corporation**: a specialized type of corporation that has the regular characteristics of a C corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met
- **Limited liability company (LLC)**: a form of legal organization that's a hybrid between a partnership and a corporation
- **Operating agreement**: the document that outlines the provisions governing the way an LLC will conduct business

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Exhibit 10-4: Legal Forms of Business Ownership (1 of 2)

Structure	Ownership requirements	Tax treatment	Liability	Advantages	Drawbacks
Sole proprietorship	One owner	Income and losses "pass through" to owner and are taxed at personal rate	Unlimited personal liability	Low start-up costs, freedom from most regulations, owner has direct control, all profits go to owner, easy to exit business	Unlimited personal liability, personal finances at risk, miss out on many business tax deductions, total responsibility, may be more difficult to raise financing
General partnership	Two or more owners	Income and losses "pass through" to partners and are taxed at personal rate; flexibility in profit-loss allocations to partners	Unlimited personal liability	Ease of formation, pooled talent, pooled resources, somewhat easier access to financing, some tax benefits,	Unlimited personal liability, divided authority and decisions, potential for conflict, continuity of transfer of ownership
Limited liability partnership (LLP)	Two or more owners	Income and losses "pass through" to partners and are taxed at personal rate; flexibility in profit-loss allocations to partners	Limited, although one partner must retain unlimited liability	Good way to acquire capital from limited partners	Cost and complexity of forming can be high, limited partners can't manage w/o losing liability protection

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Exhibit 10-4: Legal Forms of Business Ownership (2 of 2)

Structure	Ownership requirements	Tax treatment	Liability	Advantages	Drawbacks
C corporation	Unlimited number of shareholders, no limits on types of stock or voting arrangement	Dividend income taxed at corporate and personal shareholder levels, losses and deductions are corporate	Limited	Limited liability, transferable ownership, continuous existence, easier access to resources	Expensive to set up, closely regulated, double taxation, extensive record keeping, charter restrictions
S corporation	Up to 75 shareholders, no limits on types of stock or voting arrangement	Income and losses "pass through" to partners and are taxed at personal rate; flexibility in profit-loss allocations to partners	Limited	Easy to set up, limited liability and tax benefits of partnership, can have tax-exempt entity as shareholder	Must meet certain requirements, may limit future financing options
Limited liability company (LLC)	Unlimited number of "members", flexible membership arrangements for voting rights and income	Income and losses "pass through" to partners and are taxed at personal rate; flexibility in profit-loss allocations to partners	Limited	Greater flexibility, not constrained by regulations on C and S corporations, taxed as partnership not corporation	Cost of switching from one form to this can be high, need legal and financial advice in forming operation agreement

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Organizational Design and Structure

- Organizational design decisions in entrepreneurial decisions revolve around six key elements:
  - work specialization
  - Departmentalization
  - chain of command
  - span of control
  - amount of centralization/decentralization
  - amount of formalization

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Human Resource Management

- Employee recruitment
- Employee retention

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Initiating Change

- If changes are needed in the entrepreneurial venture, often it is the entrepreneur who first recognizes the need for change and acts as the catalyst, coach, cheerleader, and chief change consultant.

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The Importance of Continuing Innovation

- Innovation is a key characteristic of entrepreneurial ventures and, in fact, it's what makes the entrepreneurial venture "entrepreneurial."

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Personality Characteristics of Entrepreneurs

- **Proactive personality**: a personality trait that describes individuals who are more prone to take actions to influence their environments

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Motivating Employees Through Empowerment

- Employee empowerment—giving employees the power to make decisions and take actions on their own to solve problems—is an important motivational approach.

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The Entrepreneur as Leader

- Leading the venture
- Leading employee work teams

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Managing Growth

- Planning for growth
- Organizing for growth
- Controlling for growth

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Exhibit 10-5: Achieving a Supportive, Growth-Oriented Culture

Suggestions
Keep the lines of communication open—inform employees about major issues.
Establish trust by being honest, open, and forthright about the challenges and rewards of being a growing organization.
Be a good listener— find out what employees are thinking and facing.
Be willing to delegate duties.
Be flexible—be willing to change your plans if necessary.
Provide consistent and regular feedback by letting employees know the outcomes—good and bad.
Reinforce the contributions of each person by recognizing employees' efforts.
Continually train employees to enhance their capabilities and skills.
Maintain the focus on the venture's mission even as it grows.
Establish and reinforce a "we" spirit that supports the coordinated efforts of all the employees and helps the growing venture be successful.

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Managing Downturns

- **Boiled frog phenomenon**: a perspective on recognizing performance declines that suggests watching out for subtly declining situations

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Exiting the Venture

- **Harvesting**: exiting a venture when an entrepreneur hopes to capitalize financially on the investment in the venture

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Business Valuation Methods

- Asset valuations
- Earnings valuations
- Cash-flow valuations

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Review Learning Objective 10.1

- **Define entrepreneurship and explain why it's important.**
  - Entrepreneurial ventures are characterized by innovative practices and have growth and profitability as their main goals
  - Entrepreneurship is important because it brings forward innovative ideas, creates new start-up firms, and creates jobs.

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Review Learning Objective 10.2

- **Explain what entrepreneurs do in the planning process for new ventures.**
  - Entrepreneurs must identify environmental opportunities and competitive advantage
  - They must research a venture's feasibility, first generating and then evaluating ideas
  - Feasibility study
  - Business plan

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Review Learning Objective 10.3

- **Describe the six legal forms of organizations and the choice of appropriate organizational structure.**
  - Two primary factors that affect the decision about how to organize a business are taxes and legal liability:
    - Sole proprietorship
    - General partnership
    - Limited liability partnership (LLP)
    - Corporation
    - S corporation
    - Limited liability corporation (LLC)

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Review Learning Objective 10.4

- **Describe how entrepreneurs lead organizations.**
  - Personality traits:
    - High level of motivation
    - Abundance of self-confidence
    - Ability to be involved for the long term
    - High energy level
  - Proactive personality trait

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Review Learning Objective 10.5

- **Explain how managers control organizations for growth, downturns, and exiting the venture.**
  - Managing growth:
    - Planning for growth
    - Organizing for growth
    - Controlling growth
  - Managing downturns
  - Exiting the venture:
    - Harvesting
    - Valuation methods

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